Corporate Governance

Prof Daniel Malan
Centre for Corporate Governance in Africa
University of Stellenbosch Business School, South Africa

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Outline

• Introduction
• Director’s dilemma
• Board Learning Framework
• Five major players in national leadership
• Ethics
• Corporate responsibility
The world

What is happening? What to do about it?

is ought action

Free Association Exercise

• When I hear the words “corporate governance”, I immediately think of the following: ………
What is Corporate Governance?

“Corporate governance is the system by which organisations are directed and controlled....”

Sir Adrian Cadbury, UK, 1992

Competing Tensions

“If management is about running business, governance is about seeing that it is run properly. All companies need governing as well as managing.”

Prof. Bob Tricker, 1984
Agency And Stewardship

A Company’s Corporate Governance System

Source: International Finance Corporation
The director’s dilemma

Driving the enterprise forward while keeping it under prudent control

Corporate Governance

The system by which organizations are directed and controlled

- Coping with Uncertainty: Risk / uncertainty, understand human error, hindsight is harmful, technical / adaptive challenges (Howell)
- Stop the Rot: Interaction between directors, owners, legislators and regulators – all under much closer public oversight (Garratt)
- Purpose: optimized collective value
  Theory of business, with specific reference to the four central propositions about the purpose, accountability, control and success of business (Donaldson & Walsh)
Fourth Industrial Revolution

Long: https://www.youtube.com/watch?v=kpW9jvWxKq0
Short: https://www.youtube.com/watch?v=SCGvL1MBoeU

Bob Garratt

• “There seem to be three major roles in life: parenthood, being a director and being a politician where you’re not expected to have any training whatsoever, nor should there be any induction or any developmental process. It’s left entirely to you, and it is just assumed that somehow, miraculously, you’ll be able to do these things. That’s complete nonsense, and this is where the need for professionalism comes back into the picture.”
The five major players in national leadership

- Legislators
- Directors
- Public oversight
- Owners
- Regulators

Source: Bob Garratt, Stop the Rot

The learning board basic framework

- Accountability
- Policy formulation
- Board conformance
- Board performance
- Supervising management
- Strategic Thinking

Source: Bob Garratt (Thin on Top)
King IV: Leadership, ethics and corporate citizenship

• Leadership: the board should lead ethically and effectively
• Organisational ethics: the board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture
• Responsible corporate citizenship: the board should ensure that the organisation is and is seen to be a responsible corporate citizen

Purpose

• “Law is to justice, as medicine is to health, as business is to ______.”
Creating Shared Value (Porter & Kramer)

Optimized Collective Value (Donaldson & Walsh)

Value

Single firm

Ethical value

Economic value

Business in general

Value

Economic value

Business in general

Creating Shared Value (Porter & Kramer)

Optimized Collective Value (Donaldson & Walsh)
Levels of business ethics

**Systemic**
- What is the most ethical economic system?
- Capitalism Vs Socialism

**Industry**
- How does my industry behave?
- Tobacco, Gambling, Liquor, Fast Food?

**Company**
- How does my company behave?
- Corporate Governance, Corporate Responsibility

**Individual**
- How do I behave?
- Cheating on expense claims and time sheets, insider trading, etc.
The need for a relevant and updated policy

- Any employee who is in the habit of smoking Spanish cigars, getting shaved at a barber’s shop, going to dances and other such places of amusement will surely give his employer reason to be suspicious of his integrity and around honesty
- Each employee must pay not less than one guinea per year to the Church, and attend Sunday school every Sunday
- Men are given one evening a week for courting purposes, and two if they go to prayer meetings regularly
- After 14 hours work, spare time should be devoted to reading good literature

*United Kingdom, 1854*
Stakeholder Map: Who Needs What?

<table>
<thead>
<tr>
<th>KEEP COMPLETELY INFORMED</th>
<th>MANAGE MOST THOROUGHLY</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGULAR MINIMAL CONTACT</td>
<td>ANTICIPATE AND MEET NEEDS</td>
</tr>
</tbody>
</table>

Source: www.smartsheet.com

Dimensions of Corporate Responsibility
The 6 Capitals

Source: www.theiirc.org
The business case for health metrics


The Vitality Scorecards

<table>
<thead>
<tr>
<th>Table 1: Core scorecard</th>
<th>Source: Malan et al. (2016, p. 8)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance: leadership and culture</strong></td>
<td></td>
</tr>
<tr>
<td>1. Has your company conducted a confidential survey, audit, or other assessment within the present reporting period that measures the degree to which the workplace culture and environment support health and well-being?</td>
<td></td>
</tr>
<tr>
<td>2. Are health, well-being, chronic disease prevention, or health promotion topics mentioned in the annual report, form 10-K or any other format reported to the board of directors at least once a year?</td>
<td></td>
</tr>
<tr>
<td>3. Is there a person responsible for employee health and well-being in your company?</td>
<td></td>
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<tr>
<td><strong>Management: programs, policies and practices</strong></td>
<td></td>
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<tr>
<td>4. Does your company have an annual budget or receive dedicated funding for personalized health promotion and disease prevention programs?</td>
<td></td>
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<tr>
<td>5. Does your company have a program to address mental well-being, dealing with matters such as depression and stress management?</td>
<td></td>
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<tr>
<td>6. Does your company have an occupational safety and health (OSHA) policy?</td>
<td></td>
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<tr>
<td>7. Does your company provide medical benefits for full-time workers, including recommended national preventive services such as tobacco cessation, screenings, and vaccinations?</td>
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<tr>
<td>8. Does your company maintain a smoke-free workplace?</td>
<td></td>
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<tr>
<td><strong>Evidence of success: health risks and health outcomes</strong></td>
<td></td>
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<tr>
<td>9. Has your company conducted a confidential survey, audit, or other assessment within the present reporting period that measures the health status of employees?</td>
<td></td>
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<tr>
<td>10. What is the per-employee average absenteeism due to sick leave for the reporting period (planned leave or sick days)?</td>
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The Vitality Scorecards
Corporate Reporting

<table>
<thead>
<tr>
<th>Limited financial information</th>
<th>Short term &amp; backward looking</th>
<th>Long term &amp; forward looking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic public relations, corporate communications</td>
<td>Sustainability Report(ing)</td>
<td></td>
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</table>


Source: Making Investment Grade
Developed by Cornis van der Lugt

Red Flags For Boards

- Do the meetings finish on time?
- Are directors rarely absent?
- Are the meetings thorough in duration?
- Are you presented with strong analysis and thorough reports?
- Does the board receive effective, concise presentations?
- Are the directors sufficiently provided with needed information?
- Are you presented with sufficient time before the board meeting to prepare?
- Are you only told what the executive wants you to be told?
- Is information kept confidential within the boardroom?

Source: International Finance Corporation
Steinhoff Case Study

Lessons learnt from Steinhoff

- Be true to your strategic vision and ‘stick to the knitting’
- Growth does not equate to profit or success
- Strong governance is not just about financial and regulatory compliance; it is a mind-set
- A charismatic leader can either be very good or very bad for a company
- Even ethical business people are corruptible